

Draft chapter: Estimating the payment update for physician services

ISSUE: Is HCFA's estimate of the update to Medicare's payments for physician services for 2002 reasonable? The Balanced Budget Refinement Act (BBRA) of 1999 requires HCFA to use the sustainable growth rate (SGR) system to estimate the update by March 1 of each year. The BBRA also requires MedPAC to review this estimate in the Commission's June report to the Congress.

KEY POINTS: To calculate the update for physician services, HCFA must estimate changes in input prices, beneficiary enrollment in traditional Medicare and Medicare+Choice (M+C), growth in gross domestic product, changes in spending due to law and regulation, and actual spending for physician services. The Commission remains concerned, however, about use of the SGR system to update payments for physician services. The Commission believes this system fails to account adequately for changes in the cost of physician services and that it is a poor mechanism for controlling spending. In its March 2001 report to the Congress, the Commission recommended replacing the SGR system with an update method that better accounts for the cost of providing care. The Commission will reiterate that recommendation in the June 2001 report. In the meantime, we will comply with the BBRA and review HCFA's estimate.

The data available to HCFA to make the estimate are limited. For example, the data available on actual spending for physician services in 2000 are incomplete, and no data are available on actual spending in 2001. Also, the data available on M+C enrollment do not fully reflect the effects of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000.

Given the limited data available, HCFA's estimate of an update of -0.1 percent appears reasonable, but revision of the update with better data will be important before HCFA issues the final update this fall. Updates that are too low jeopardize beneficiary access to high quality care, and updates that are too high create an unnecessary financial burden for beneficiaries and taxpayers.

ACTION: This draft chapter is a revision of a paper discussed at the March meeting. Commissioners should decide whether the revised chapter reflects Commission discussion. Staff will then revise the chapter so it can be part of the June report.

STAFF CONTACT: Kevin Hayes (202-653-2632)